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SUBJECT: IRAQI OIL MINISTER'S FAILED RAID ON SOUTH OIL COMPANY

Classified By: Economic Counselor Michael Dodman, reasons 1.4(b,d)

¶1. (SBU) In a September 4 decision, Oil Minister Shahristani appointed Jabbar al-Luaibi to a new position within the Ministry of Oil that will oversee the new Maysan Oil Company, the South Gas Company, and the South Oil Company, rather than simply reinstating him to his old position as director general of South Oil (SOC). This undoes a mid-May decision that not only removed Jabbar, but also the heads of the South Gas Company and the Iraqi Oil Tankers Company in a move that was widely seen as an attempt to reassert Ministry of Oil (MoO) control over key MoO operating companies controlling the flow of oil from southern oil fields and over the natives of Basra heading the companies. Jabbar refused to relocate to Baghdad, as required by his appointment as an MoO advisor, staying in place and continue to exert control over his former SOC deputies. Shahristani made another move to weaken Jabbar's control with a July 21 decree establishing the Maysan Oil Company, carving the Maysan oil fields from SOC's assets.

¶2. (SBU) In an August 13 decree, Shahristani had appointed Ali Ma'arij Suwayda as the acting director general for Maysan Oil and filled other positions within the organization, including appointing two deputy directors general. Although the July 21 decree provided for a transitional period continuing SOC control over Maysan Oil, the new company would need to develop a cooperative relationship with SOC, since SOC controls and operates the distribution and other infrastructure that Maysan Oil would employ. Nevertheless, Maysan Oil appears to be up and running. In late August, PRT Maysan's oil and gas advisor met with Maysan Oil Deputy Director General Adnan Nushi Sajit and a provincial oil and gas official during which Sajit appealed for PRT assistance, *inter alia*, in identifying drilling contractors, maintenance of a 28-inch crude oil pipeline to Basra, and construction of second crude oil pipeline to Basra.

¶3. (SBU) In conversations in Baghdad, MoO staff generally approved of Shahristani's decision to establish Maysan Oil, although they also strongly opposed any move to divide up SOC's assets further, as has been rumored might happen. Suwayda was viewed as technically competent and a good manager, as were others on his staff. Their formal appointment was likely to take several months, extending into ¶2009. MoO was developing an economic and financial plan, as well as production plans, for the new company that were to be completed in September. Plans were also underway to provide additional drilling rigs, since only one rig was currently operational for drilling and work-overs both. (Note: According to our information, the following fields are located in Maysan Province: Abu Ghurab, Jabal Fauqi, Huwaiza, Buzurgan, al-Halfaya, Noor, Amara, and Rafae. The first three fields cross into Iranian territory.)

¶4. (C) Comment: While we still do not know the back-room political maneuvering that resulted in Jabbar's elevation,

the decision is a clear setback for Shahristani. It likely reflects Jabbar's strong power base in Basra (SOC workers went on strike and demonstrated on his behalf) and the strength of his connections to the Fadhila political party. Jabbar's return to the helm, however, removes uncertainty regarding SOC's future (which is good news regarding Shell Oil's plans to collect and market natural gas from SOC fields, reftel) and his control over the three operating companies in the south could lead to operational efficiencies and better coordination.

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